

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|--|---|--------------------------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>City of Northville, Michigan</u> | County <u>Oakland/Wayne</u> |
| Audit Date <u>June 30, 2004</u> | Opinion Date <u>September 2, 2004</u> | Date Accountant Report Submitted To State: <u>November 5, 2004</u> | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|--|---------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name): Plante & Moran, PLLC | | | |
| Street Address <u>27400 Northwestern Highway</u> | City <u>Southfield</u> | State <u>MI</u> | ZIP <u>48034</u> |
| Accountant Signature <i>Plante & Moran, PLLC</i> | | | |

City of Northville, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Northville, Michigan

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Independent Auditor's Report

To the City Council
City of Northville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Northville as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Northville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Northville as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Northville, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northville's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 2, 2004

City of Northville, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Northville (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- Property taxes are the City's single largest source of revenue. The City's tax base, net of captured taxable value, for fiscal year 2004 was \$309,442,551, which represents an increase of \$16,830,216, or 5.8 percent.
- State-shared revenue, the second largest revenue source, was reduced by the State of Michigan by approximately \$68,000 this year. This represents an 8.6 percent decrease from the prior year.
- The City closely monitors discretionary spending by performing quarterly budget amendments. As a result of close monitoring, the fund balance of the General Fund increased by approximately \$40,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | | | |
| Current assets | \$ 8,579,788 | \$ 8,218,494 | \$ 1,975,312 | \$ 1,954,091 | \$ 10,555,100 | \$ 10,172,585 |
| Noncurrent assets | <u>24,693,197</u> | <u>23,772,979</u> | <u>6,705,627</u> | <u>6,896,284</u> | <u>31,398,824</u> | <u>30,669,263</u> |
| Total assets | 33,272,985 | 31,991,473 | 8,680,939 | 8,850,375 | 41,953,924 | 40,841,848 |
| Liabilities | | | | | | |
| Current liabilities | 1,726,865 | 1,782,266 | 295,630 | 503,795 | 2,022,495 | 2,286,061 |
| Long-term liabilities | <u>4,013,231</u> | <u>4,878,404</u> | <u>354,490</u> | <u>430,404</u> | <u>4,367,721</u> | <u>5,308,808</u> |
| Total liabilities | <u>5,740,096</u> | <u>6,660,670</u> | <u>650,120</u> | <u>934,199</u> | <u>6,390,216</u> | <u>7,594,869</u> |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 19,587,583 | 18,108,836 | 6,292,808 | 6,342,515 | 25,880,391 | 24,451,351 |
| Restricted | 1,410,198 | 859,502 | 5,000 | 4,980 | 1,415,198 | 864,482 |
| Unrestricted | <u>6,535,108</u> | <u>6,362,465</u> | <u>1,733,011</u> | <u>1,568,681</u> | <u>8,268,119</u> | <u>7,931,146</u> |
| Total net assets | <u>\$ 27,532,889</u> | <u>\$ 25,330,803</u> | <u>\$ 8,030,819</u> | <u>\$ 7,916,176</u> | <u>\$ 35,563,708</u> | <u>\$ 33,246,979</u> |

The City's combined net assets increased approximately \$2,317,000, or 7 percent, from a year ago. This was expected due to the investment in capital assets that occurred during the year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$173,000, or 2.7 percent. That increase was expected as it was consistent with the budget projections for the year ended June 30, 2004.

The increase in unrestricted net assets of the business-type activities increased approximately \$164,000, or 10.5 percent. This was also a planned increase which is intended for future capital improvements in the water and sewer systems.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 1,571,682 | \$ 1,512,754 | \$ 2,600,224 | \$ 2,766,787 | \$ 4,171,906 | \$ 4,279,541 |
| Operating grants and contributions | 946,839 | 808,994 | 2,654 | - | 949,493 | 808,994 |
| Capital grants and contributions | 80,272 | 476,827 | - | - | 80,272 | 476,827 |
| General revenue: | | | | | | |
| Property taxes | 4,656,892 | 4,447,636 | - | - | 4,656,892 | 4,447,636 |
| State-shared revenue | 618,651 | 676,481 | - | - | 618,651 | 676,481 |
| Unrestricted investment earnings | 71,202 | 122,011 | 9,456 | 23,945 | 80,658 | 145,956 |
| Franchise fees | 72,685 | 67,078 | - | - | 72,685 | 67,078 |
| Racetrack breakage | 530,419 | 548,017 | - | - | 530,419 | 548,017 |
| Transfers and other revenue | 1,844 | (2,522) | (65,542) | - | (63,698) | (2,522) |
| Total revenue | 8,550,486 | 8,657,276 | 2,546,792 | 2,790,732 | 11,097,278 | 11,448,008 |
| Program Expenses | | | | | | |
| General government | 1,815,047 | 1,661,329 | - | - | 1,815,047 | 1,661,329 |
| Public safety | 2,547,184 | 2,317,628 | - | - | 2,547,184 | 2,317,628 |
| Public works | 535,665 | 2,231,734 | - | - | 535,665 | 2,231,734 |
| Recreation and culture | 622,321 | 346,554 | - | - | 622,321 | 346,554 |
| Senior housing | 622,180 | 571,679 | - | - | 622,180 | 571,679 |
| Interest on long-term debt | 206,003 | 224,847 | - | - | 206,003 | 224,847 |
| Refuse and recycling | - | - | 393,060 | 402,189 | 393,060 | 402,189 |
| Water and sewer | - | - | 2,039,089 | 2,266,739 | 2,039,089 | 2,266,739 |
| Total program expenses | 6,348,400 | 7,353,771 | 2,432,149 | 2,668,928 | 8,780,549 | 10,022,699 |
| Change in Net Assets | \$ 2,202,086 | \$ 1,303,505 | \$ 114,643 | \$ 121,804 | \$ 2,316,729 | \$ 1,425,309 |

Governmental Activities

Looking at the governmental activities, it is evident that, in total, revenues and expenses are consistent between both years. This is an expected trend for a mature city such as Northville.

In fiscal year 2004, decreases experienced in several revenue categories are due to statewide economic conditions. The revenue categories impacted include State-shared revenue, investment earnings, and building permit activity. Those losses of revenue were offset by an increase in the City's tax base. The increase in the property tax base is a result of inflationary increases in existing parcels and new construction. There has been no increase in the operating millage rate. The total City millage rate continues to be at the lowest rate in over 10 years.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

As expected, expenses decreased by approximately \$1,005,000, or 13.7 percent, due to the level of public construction projects in the prior year that were completed. All departments experienced increases in personnel costs with the highest percentage experience in health care costs.

Business-type Activities

The City's business-type activities consist of the Water and Sewer and Refuse and Recycling Funds. The City maintains transmission lines that allow customers to receive water from the Detroit water system and deliver it to our residents. In addition, a water tower is operated and maintained to supplement water pressure during periods of peak water demand. Sewage treatment is provided through Wayne County's Rouge Valley Sewage Disposal System. Refuse collection and recycling services are provided by an outside commercial entity.

The revenues of business activities decreased by approximately \$166,000, or 6.0 percent. This was due to a decline in utility usage caused by less demand for outdoor water usage based upon weather conditions. The expenses of business activities decreased by approximately \$237,000, or 8.9 percent, which partially relate to the decrease in revenues. This is because there was a decrease in supplier costs for water and sewer services based upon decreased usage.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, Major Streets Fund, Local Streets Fund, Parking Fund, Public Improvement Fund, Housing Commission Fund, and Health Care Fund.

General Fund Budgetary Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended quarterly. The result is that actual revenues and expenses are usually within 1 percent of budgeted amounts.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$2,417,000 in 2004. Expenses for police service, dispatch, racetrack services, and capital expenditures are recorded in various departments within the General Fund. Fire protection services are recorded in the General Fund. That department's major capital expenditures, however, are accounted for in the Fire Equipment and Replacement Fund.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City had approximately \$30,381,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. Of that amount, approximately \$9,066,000 (net of depreciation) relates to infrastructure.

The City continues to collect a dedicated millage approved by the voters in March 1997 for comprehensive improvements to streets, drains, and sidewalks. The focus of the related capital project spending continues to be in conjunction with a 20-year improvement plan.

The City also funds a Fire Equipment and Replacement Fund. This fund allows for the purchase of equipment following a 20-year replacement program to keep equipment up to date and meet current standards. With careful planning and proper maintenance of existing equipment, it is anticipated that taxpayers will not be burdened with additional debt millages to replace existing equipment.

Economic Factors and Next Year's Budgets and Rates

The general operating millage will not be increased for next year, despite no projected increase in State-shared revenue. Certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance and liability insurance. By limiting other categories of expenditures and revisiting how certain services are delivered, the City was able to balance its budget for fiscal year 2005 with a modest projected increase in fund balance.

Water rates from the City of Detroit will increase 2.1 percent and the sewer rate from Wayne County will increase 3.1 percent. Due to the City's decreasing debt load, programmed system improvements, and controlled water loss, the impact of the suppliers' rate increases will again be minimized on the City's customers. There will be no rate change for water, sewer, or dual meter sewer rates.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's finance office at 215 West Main Street, Northville, Michigan 48167, or via the City's Web site at www.ci.northville.mi.us.

City of Northville, Michigan

Statement of Net Assets June 30, 2004

| | Primary Government | | | Component Unit - Downtown Development Authority |
|---|----------------------------|-----------------------------|----------------------|--|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 6,404,641 | \$ 1,441,433 | \$ 7,846,074 | \$ 1,276,018 |
| Receivables - Net: | | | | |
| Tax receivables | 20,462 | - | 20,462 | - |
| Customer receivables | - | 476,344 | 476,344 | - |
| Special assessments | 703,193 | - | 703,193 | - |
| Other governmental units | 1,256,104 | 3,211 | 1,259,315 | 2,675 |
| Other | 110,557 | 2,963 | 113,520 | - |
| Internal balances | (18,432) | 18,432 | - | - |
| Inventories | 13,788 | 32,929 | 46,717 | - |
| Other assets | 89,475 | - | 89,475 | - |
| Investments in land | 225,000 | - | 225,000 | - |
| Restricted assets (Note 8) | 137,692 | 5,000 | 142,692 | - |
| Investment in joint ventures (Note 11) | 649,635 | - | 649,635 | - |
| Capital assets not being depreciated (Note 5) | 2,766,173 | 106,242 | 2,872,415 | - |
| Capital assets being depreciated (Note 5) | 20,914,697 | 6,594,385 | 27,509,082 | - |
| Total assets | 33,272,985 | 8,680,939 | 41,953,924 | 1,278,693 |
| Liabilities | | | | |
| Accounts payable | 182,240 | 177,276 | 359,516 | 2,130 |
| Accrued and other liabilities | 404,510 | 37,105 | 441,615 | 38,129 |
| Due to other governmental units | 84,947 | - | 84,947 | - |
| Deferred revenue (Note 4) | 34,703 | - | 34,703 | - |
| Compensated absences: | | | | |
| Due within one year | 202,698 | 9,177 | 211,875 | - |
| Due in more than one year | 425,450 | 18,743 | 444,193 | - |
| Long-term debt (Note 7): | | | | |
| Due within one year | 817,767 | 72,072 | 889,839 | - |
| Due in more than one year | 3,587,781 | 335,747 | 3,923,528 | - |
| Total liabilities | 5,740,096 | 650,120 | 6,390,216 | 40,259 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 19,587,583 | 6,292,808 | 25,880,391 | - |
| Restricted: | | | | |
| Streets and sidewalk improvements | 357,128 | - | 357,128 | - |
| Cemetery | 475,367 | - | 475,367 | - |
| Insurance retention | 50,431 | - | 50,431 | - |
| Parking debt | 518,850 | - | 518,850 | - |
| Other purposes | 8,422 | 5,000 | 13,422 | - |
| Unrestricted | 6,535,108 | 1,733,011 | 8,268,119 | 1,238,434 |
| Total net assets | <u>\$ 27,532,889</u> | <u>\$ 8,030,819</u> | <u>\$ 35,563,708</u> | <u>\$ 1,238,434</u> |

City of Northville, Michigan

| | | Program Revenues | | |
|---|----------------------------|----------------------------|--------------------------|-------------------------|
| | | Charges for | Operating | Capital Grants |
| | Expenses | Services | Grants and Contributions | and Contributions |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 1,815,047 | \$ 702,893 | \$ - | \$ - |
| Public safety | 2,547,184 | 126,428 | 73,746 | - |
| Public works | 535,665 | 114,496 | 784,918 | 69,115 |
| Recreation and culture | 622,321 | 25,793 | - | 11,157 |
| Senior housing | 622,180 | 602,072 | 88,175 | - |
| Interest on long-term debt | 206,003 | - | - | - |
| Total governmental activities | 6,348,400 | 1,571,682 | 946,839 | 80,272 |
| Business-type activities: | | | | |
| Water and sewer | 2,039,089 | 2,144,684 | 2,654 | - |
| Refuse and recycling | 393,060 | 455,540 | - | - |
| Total business-type activities | 2,432,149 | 2,600,224 | 2,654 | - |
| Total primary government | <u><u>\$ 8,780,549</u></u> | <u><u>\$ 4,171,906</u></u> | <u><u>\$ 949,493</u></u> | <u><u>\$ 80,272</u></u> |
| Component unit - Downtown Development Authority | | | | |
| | <u><u>\$ 721,973</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| General revenues: | | | | |
| Property taxes | | | | |
| State-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Racetrack breakage revenue | | | | |
| Franchise fee revenue | | | | |
| Gain (loss) on disposal of asset | | | | |
| Total general revenues and gain (loss) on disposal of asset | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended June 30, 2004

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (1,112,154) | \$ - | \$ (1,112,154) | \$ - |
| (2,347,010) | - | (2,347,010) | - |
| 432,864 | - | 432,864 | - |
| (585,371) | - | (585,371) | - |
| 68,067 | - | 68,067 | - |
| (206,003) | - | (206,003) | - |
| (3,749,607) | - | (3,749,607) | - |
| - | 108,249 | 108,249 | - |
| - | 62,480 | 62,480 | - |
| - | 170,729 | 170,729 | - |
| (3,749,607) | 170,729 | (3,578,878) | - |
| - | - | - | (721,973) |
| 4,656,892 | - | 4,656,892 | 914,066 |
| 618,651 | - | 618,651 | - |
| 71,202 | 9,456 | 80,658 | 9,353 |
| 530,419 | - | 530,419 | - |
| 72,685 | - | 72,685 | - |
| 1,844 | (65,542) | (63,698) | - |
| 5,951,693 | (56,086) | 5,895,607 | 923,419 |
| 2,202,086 | 114,643 | 2,316,729 | 201,446 |
| 25,330,803 | 7,916,176 | 33,246,979 | 1,036,988 |
| \$ 27,532,889 | \$ 8,030,819 | \$ 35,563,708 | \$ 1,238,434 |

City of Northville, Michigan

| | Major Special | | | |
|---|---------------------|-------------------|-------------------|-------------------|
| | General | Major Streets | Local Streets | Parking |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 1,052,138 | \$ 126,130 | \$ 124,621 | \$ 207,384 |
| Restricted cash (Note 3) | 1,052 | - | - | - |
| Receivables - Net: | | | | |
| Delinquent taxes | 20,462 | - | - | - |
| Other governmental units | 1,060,847 | 162,089 | 19,271 | - |
| Assessments | - | - | - | 505,797 |
| Other | 48,599 | 4,515 | - | - |
| Other assets | 22,781 | - | - | 8,119 |
| Investment in land | - | - | - | - |
| Total assets | <u>\$ 2,205,879</u> | <u>\$ 292,734</u> | <u>\$ 143,892</u> | <u>\$ 721,300</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 53,037 | \$ 38,326 | \$ 44,410 | \$ 24 |
| Accrued and other liabilities | 270,202 | 4,098 | 4,300 | - |
| Due to other governmental units | 1,537 | 83,410 | - | - |
| Deferred revenue | - | 49,121 | - | 429,709 |
| Total liabilities | 324,776 | 174,955 | 48,710 | 429,733 |
| Fund Balances | | | | |
| Reserved: | | | | |
| Investment in land | - | - | - | - |
| Mainville Fund | - | - | - | - |
| Capital projects | 1,052 | - | - | - |
| Cemetery | - | - | - | - |
| Insurance retention | - | - | - | - |
| Unreserved: | | | | |
| Designated, reported in Special Revenue Funds (Note 12) | - | - | - | - |
| Undesignated, reported in: | | | | |
| General Fund | 1,880,051 | - | - | - |
| Special Revenue Funds | - | 117,779 | 95,182 | 291,567 |
| Debt Service Funds | - | - | - | - |
| Capital Projects Funds | - | - | - | - |
| Total fund balances | <u>1,881,103</u> | <u>117,779</u> | <u>95,182</u> | <u>291,567</u> |
| Total liabilities and fund balances | <u>\$ 2,205,879</u> | <u>\$ 292,734</u> | <u>\$ 143,892</u> | <u>\$ 721,300</u> |

**Governmental Funds
Balance Sheet
June 30, 2004**

Revenue Funds

| Public Improvement | Housing Commission | Health Care | Other Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------|-----------------------|---------------------|---|--------------------------------|
| \$ 1,226,261 | \$ 369,898 | \$ 1,260,785 | \$ 1,461,861 | \$ 5,829,078 |
| - | - | - | 136,640 | 137,692 |
| - | - | - | - | 20,462 |
| - | 6,419 | - | 7,478 | 1,256,104 |
| 57,982 | - | - | 139,414 | 703,193 |
| 49,290 | - | - | 6,353 | 108,757 |
| 416 | - | - | 58,089 | 89,405 |
| 225,000 | - | - | - | 225,000 |
| \$ 1,558,949 | \$ 376,317 | \$ 1,260,785 | \$ 1,809,835 | \$ 8,369,691 |
| \$ 19,036 | \$ 25,265 | \$ 117 | \$ 164 | \$ 180,379 |
| 54,911 | 10,849 | - | - | 344,360 |
| - | - | - | - | 84,947 |
| 74,743 | 10,575 | - | 111,529 | 675,677 |
| 148,690 | 46,689 | 117 | 111,693 | 1,285,363 |
| 225,000 | - | - | - | 225,000 |
| 8,422 | - | - | - | 8,422 |
| - | 136,830 | - | 86,209 | 224,091 |
| - | - | - | 475,367 | 475,367 |
| - | - | - | 50,431 | 50,431 |
| 1,139,744 | - | - | 56,433 | 1,196,177 |
| - | - | - | - | 1,880,051 |
| 37,093 | 192,798 | 1,260,668 | 290,579 | 2,285,666 |
| - | - | - | 576,976 | 576,976 |
| - | - | - | 162,147 | 162,147 |
| 1,410,259 | 329,628 | 1,260,668 | 1,698,142 | 7,084,328 |
| \$ 1,558,949 | \$ 376,317 | \$ 1,260,785 | \$ 1,809,835 | \$ 8,369,691 |

City of Northville, Michigan

Governmental Funds Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Fund Balances - Total Governmental Funds \$ 7,084,328

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 14,003,333 |
| Infrastructure assets used in government activities are not financial resources and are not reported in the funds | 9,199,247 |
| Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures | 591,854 |
| Grant revenue is expected to be collected over several years and is not available to pay for current expenditures | 49,120 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (4,405,548) |
| Interest payable is not accrued in the funds | (56,547) |
| Compensated absences are not included as a liability of the funds | (616,862) |
| Investments in joint ventures are included as part of governmental activities | 649,635 |
| Internal Service Funds are also included as governmental activities | <u>1,034,329</u> |

Net Assets of Governmental Activities \$ 27,532,889

City of Northville, Michigan

| | Major Special | | | |
|--|---------------------|-------------------|------------------|-------------------|
| | General | Major Streets | Local Streets | Parking |
| Revenue | | | | |
| Property taxes | \$ 4,133,149 | \$ - | \$ - | \$ - |
| Licenses and permits | 284,700 | - | - | - |
| Special assessments | - | - | - | 100,698 |
| Federal sources | - | - | - | - |
| State-shared and grant revenue | 628,717 | 270,965 | 125,590 | - |
| Local contributions | 59,978 | - | - | - |
| Sales and services | 112,775 | - | - | - |
| Charges for overhead services | 201,687 | - | - | - |
| Fines and forfeitures | 96,827 | - | - | - |
| Michigan Housing Authority subsidies | - | - | - | - |
| Rental income | - | - | - | - |
| Racetrack revenue | 176,834 | - | - | - |
| Other | 79,866 | 442 | 3,793 | 4,319 |
| Total revenue | 5,774,533 | 271,407 | 129,383 | 105,017 |
| Expenditures - Current | | | | |
| Administration | 932,413 | - | - | - |
| Police department | 2,105,410 | - | - | - |
| Fire and inspection | 311,245 | - | - | - |
| Housing operations | - | - | - | - |
| Public works | 595,617 | - | - | - |
| Planning, zoning, and inspection | 223,547 | - | - | - |
| Building and grounds | 408,986 | - | - | - |
| Legislative and judicial | 14,850 | - | - | - |
| Debt retirement | 232,625 | 38,198 | 40,284 | - |
| Shared services | 199,444 | - | - | - |
| Other expenditures | 321,798 | 32,280 | 32,280 | 8,316 |
| Street maintenance and repairs | - | 264,111 | 698,050 | - |
| Total expenditures | 5,345,935 | 334,589 | 770,614 | 8,316 |
| Excess of Revenue Over (Under) Expenditures | 428,598 | (63,182) | (641,231) | 96,701 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | 77,893 | 641,377 | - |
| Transfers out | (439,424) | - | - | - |
| Issuance of long-term debt | 50,944 | - | - | - |
| Total other financing sources (uses) | (388,480) | 77,893 | 641,377 | - |
| Net Change in Fund Balances | 40,118 | 14,711 | 146 | 96,701 |
| Fund Balances - Beginning of year | 1,840,985 | 103,068 | 95,036 | 194,866 |
| Fund Balances - End of year | <u>\$ 1,881,103</u> | <u>\$ 117,779</u> | <u>\$ 95,182</u> | <u>\$ 291,567</u> |

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

Revenue Funds

| Public Improvement | Housing Commission | Health Care | Other Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------|-----------------------|---------------------|---|--------------------------------|
| \$ - | \$ - | \$ - | \$ 523,743 | \$ 4,656,892 |
| - | - | - | - | 284,700 |
| 31,108 | - | - | 38,007 | 169,813 |
| 9,747 | 6,419 | - | - | 16,166 |
| - | - | - | - | 1,025,272 |
| 22,033 | - | 208,348 | 444,396 | 734,755 |
| - | 3,977 | - | 30,376 | 147,128 |
| - | - | - | - | 201,687 |
| - | - | - | - | 96,827 |
| - | 80,049 | - | - | 80,049 |
| - | 591,440 | - | - | 591,440 |
| 353,585 | - | - | - | 530,419 |
| 60,937 | 16,848 | 8,050 | 39,284 | 213,539 |
| 477,410 | 698,733 | 216,398 | 1,075,806 | 8,748,687 |
| - | 194,038 | - | - | 1,126,451 |
| - | - | - | - | 2,105,410 |
| - | - | - | 27,827 | 339,072 |
| - | 302,193 | - | - | 302,193 |
| - | - | - | - | 595,617 |
| - | - | - | - | 223,547 |
| - | - | - | - | 408,986 |
| - | - | - | - | 14,850 |
| 174,028 | 18,135 | - | 462,090 | 965,360 |
| - | - | - | - | 199,444 |
| 755,703 | 1,124,005 | - | 5,798 | 2,280,180 |
| - | - | - | - | 962,161 |
| 929,731 | 1,638,371 | - | 495,715 | 9,523,271 |
| (452,321) | (939,638) | 216,398 | 580,091 | (774,584) |
| 218,228 | 23,617 | - | 182,660 | 1,143,775 |
| - | (103,210) | - | (601,141) | (1,143,775) |
| - | - | - | - | 50,944 |
| 218,228 | (79,593) | - | (418,481) | 50,944 |
| (234,093) | (1,019,231) | 216,398 | 161,610 | (723,640) |
| 1,644,352 | 1,348,859 | 1,044,270 | 1,536,532 | 7,807,968 |
| <u>\$ 1,410,259</u> | <u>\$ 329,628</u> | <u>\$ 1,260,668</u> | <u>\$ 1,698,142</u> | <u>\$ 7,084,328</u> |

City of Northville, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (723,640)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 2,115,132

Net income from joint ventures is not recorded in the governmental funds, but is recorded in the statement of activities 97,053

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 8,815

Interest expense reported in the statement of activities that does not use current financial resources and is not reported as expense in the governmental funds 9,683

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 756,957

Bond proceeds are not reported as financing sources on the statement of activities (50,944)

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities (29,900)

Internal Service Funds are also included as governmental activities 18,930

Change in Net Assets of Governmental Activities \$ 2,202,086

City of Northville, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

| | Enterprise Funds | | | Internal Service Fund |
|---|------------------------------------|--|--------------|--------------------------|
| | Major Fund - Water and Sewer | Nonmajor Fund - Refuse and Recycling | Total | Municipal Equipment |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,293,639 | \$ 147,794 | \$ 1,441,433 | \$ 575,562 |
| Receivables - Net: | | | | |
| Customers | 399,353 | 76,991 | 476,344 | - |
| Other governmental units | 2,422 | 789 | 3,211 | - |
| Other | 2,963 | - | 2,963 | 1,802 |
| Inventories | 32,929 | - | 32,929 | 13,857 |
| Total current assets | 1,731,306 | 225,574 | 1,956,880 | 591,221 |
| Noncurrent assets: | | | | |
| Restricted assets | 5,000 | - | 5,000 | - |
| Capital assets | 6,700,627 | - | 6,700,627 | 478,290 |
| Total noncurrent assets | 6,705,627 | - | 6,705,627 | 478,290 |
| Total assets | 8,436,933 | 225,574 | 8,662,507 | 1,069,511 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 153,053 | 24,223 | 177,276 | 1,860 |
| Accrued and other liabilities | 36,518 | 587 | 37,105 | 3,603 |
| Current portion of compensated absences | 9,177 | - | 9,177 | - |
| Current portion of long-term debt | 72,072 | - | 72,072 | - |
| Total current liabilities | 270,820 | 24,810 | 295,630 | 5,463 |
| Noncurrent liabilities: | | | | |
| Provision for compensated absences - Net of current portion | 15,884 | 2,859 | 18,743 | 11,286 |
| Long-term debt - Net of current portion | 335,747 | - | 335,747 | - |
| Total noncurrent liabilities | 351,631 | 2,859 | 354,490 | 11,286 |
| Total liabilities | 622,451 | 27,669 | 650,120 | 16,749 |
| Net Assets | | | | |
| Investment in capital assets - Net of related debt | 6,292,808 | - | 6,292,808 | 478,290 |
| Restricted | 5,000 | - | 5,000 | - |
| Unrestricted | 1,516,674 | 197,905 | 1,714,579 | 574,472 |
| Total net assets | \$ 7,814,482 | \$ 197,905 | 8,012,387 | \$ 1,052,762 |

Amounts reported for business-type activities in the statement of net assets are different because a portion of the Internal Service Fund is allocated to business-type activities (amount reported as internal balance)

| | |
|--|---------------------|
| | 18,432 |
| Net assets of business-type activities | <u>\$ 8,030,819</u> |

City of Northville, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

| | Enterprise Funds | | | Internal Service Fund |
|--|------------------------------------|--|--------------|------------------------|
| | Major Fund - Water and Sewer | Nonmajor Fund - Refuse and Recycling | Total | Municipal Equipment |
| Operating Revenue | | | | |
| Customer charges | \$ 2,034,703 | \$ 431,782 | \$ 2,466,485 | \$ - |
| Rental income | 91,080 | - | 91,080 | 347,340 |
| Other revenue | 21,555 | 23,758 | 45,313 | 2,903 |
| Total operating revenue | 2,147,338 | 455,540 | 2,602,878 | 350,243 |
| Operating Expenses | | | | |
| General operations and maintenance | 1,562,037 | 369,168 | 1,931,205 | 220,699 |
| Depreciation | 235,888 | - | 235,888 | 111,900 |
| Other expenses | 206,816 | 23,892 | 230,708 | - |
| Total operating expenses | 2,004,741 | 393,060 | 2,397,801 | 332,599 |
| Operating Income | 142,597 | 62,480 | 205,077 | 17,644 |
| Nonoperating Revenue (Expenses) | | | | |
| Loss on disposal of asset | (65,542) | - | (65,542) | 2,100 |
| Investment income | 8,723 | 733 | 9,456 | 3,559 |
| Interest expense | (38,720) | - | (38,720) | - |
| Total nonoperating revenue (expenses) | (95,539) | 733 | (94,806) | 5,659 |
| Net Income | 47,058 | 63,213 | 110,271 | 23,303 |
| Net Assets - Beginning of year | 7,767,424 | 134,692 | | 1,029,459 |
| Net Assets - End of year | <u>\$ 7,814,482</u> | <u>\$ 197,905</u> | | <u>\$ 1,052,762</u> |

Amounts reported for business-type activities in the statement of activities are different because a portion of the Internal Service Fund net income is allocable to the Enterprise Funds

| | |
|--|-------------------|
| | 4,372 |
| Change in net assets of business-type activities | <u>\$ 114,643</u> |

City of Northville, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

| | Enterprise Funds | | | Internal Service Fund |
|---|------------------------------------|---|---------------------|--------------------------|
| | Major Fund - Water and Sewer | Nonmajor Fund - Refuse and Recycling | Total | Municipal Equipment |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 2,146,404 | \$ 450,277 | \$ 2,596,681 | \$ 348,061 |
| Payments to suppliers | (1,503,913) | (379,759) | (1,883,672) | (111,894) |
| Payments to employees | (407,780) | (15,376) | (423,156) | (115,280) |
| Other receipts | 91,080 | - | 91,080 | 2,903 |
| Net cash provided by operating activities | 325,791 | 55,142 | 380,933 | 123,790 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Collection of customer assessments (principal and interest) | 3,568 | - | 3,568 | - |
| Proceeds from sale of assets | 50 | - | 50 | 2,100 |
| Purchase of capital assets | (110,800) | - | (110,800) | (26,149) |
| Principal and interest paid on capital debt | (179,691) | - | (179,691) | - |
| Net cash used in capital and related financing activities | (286,873) | - | (286,873) | (24,049) |
| Cash Flows from Investing Activities - Interest received on investments | 8,723 | 734 | 9,457 | 3,557 |
| Net Increase in Cash and Cash Equivalents | 47,641 | 55,876 | 103,517 | 103,298 |
| Cash and Cash Equivalents - Beginning of year | 1,250,998 | 91,918 | 1,342,916 | 472,264 |
| Cash and Cash Equivalents - End of year | \$ 1,298,639 | \$ 147,794 | \$ 1,446,433 | \$ 575,562 |
| Balance Sheet Classification of Cash and Cash Equivalents | | | | |
| Cash and investments | \$ 1,293,639 | \$ 147,794 | \$ 1,441,433 | \$ 575,562 |
| Restricted investments (Note 3) | 5,000 | - | 5,000 | - |
| Total cash and cash equivalents | \$ 1,298,639 | \$ 147,794 | \$ 1,446,433 | \$ 575,562 |
| Reconciliation of Operating Income to Net Cash from Operating Activities | | | | |
| Operating income | \$ 142,597 | \$ 62,480 | \$ 205,077 | \$ 17,644 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 235,888 | - | 235,888 | 111,900 |
| Changes in assets and liabilities: | | | | |
| Receivables | 90,146 | (5,261) | 84,885 | 721 |
| Other assets | (1,806) | - | (1,806) | (2,232) |
| Accounts payable | (132,201) | (1,529) | (133,730) | 64 |
| Accrued and other liabilities | (8,833) | (548) | (9,381) | (4,307) |
| Net cash provided by operating activities | \$ 325,791 | \$ 55,142 | \$ 380,933 | \$ 123,790 |

There were no noncash capital, financing, or investing activities during the year.

City of Northville, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

| | | |
|-----------------------------------|---|------------------|
| | Private Purpose Trust - Allen Terrace Trust | |
| | Fund | Agency Funds |
| Assets | | |
| Cash and investments | \$ 104,691 | \$ (34,027) |
| Accounts receivable | | 167 |
| Other assets | - | 110,205 |
| Total assets | 104,691 | <u>\$ 76,345</u> |
| Liabilities | | |
| Accounts payable | - | \$ 44,640 |
| Accrued and other liabilities | - | 6,790 |
| Due to other governmental units | - | 24,915 |
| Total liabilities | - | 76,345 |
| Net Assets - Held in trust | 104,691 | - |
| Total liabilities and net assets | <u>\$ 104,691</u> | <u>\$ 76,345</u> |

City of Northville, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

| | |
|-----------------------------------|---|
| | Private Purpose Trust - Allen Terrace Trust Fund |
| Revenue | |
| Interest revenue | \$ 826 |
| Contributions from local units | 7,056 |
| Donations | <u>575</u> |
| Total revenue | 8,457 |
| Expenses - Rent subsidies | <u>1,532</u> |
| Change in Net Assets | 6,925 |
| Net Assets - July 1, 2003 | <u>97,766</u> |
| Net Assets - June 30, 2004 | <u><u>\$ 104,691</u></u> |

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Northville (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Northville:

Reporting Entity

The City of Northville is governed by an elected mayor and five-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit - The Downtown Development Authority (DDA) of the City is reported in a separate component unit column to emphasize that it is legally separate from the City. The DDA was created to assist the City in the development of the downtown area. The DDA's governing body, which consists of nine individuals, is approved by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The financial information included in the separate column is condensed. The complete financial statements of the DDA can be obtained from the City Offices at 215 W. Main Street, Northville, Michigan 48167.

Jointly Governed Organizations - Jointly governed organizations are discussed in Note II.

Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include the property taxes, State-shared revenue, and racetrack breakage. All other revenue items are considered to be available only when cash is received by the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Local Streets Fund - The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

Parking Fund - The Parking Fund is a Special Revenue Fund that is used to account for parking credit special assessment revenue and to pay for related public parking expenditures.

Public Improvement Fund - The Public Improvement Fund is a Special Revenue Fund that accounts for breakage revenue, to the extent that it exceeds the cost of providing police and fire service at the racetrack. The expenditures in this fund are primarily for public improvement projects and related debt expenditures. Most grant activity is also recorded in this fund.

Housing Commission Fund - The Housing Commission Fund is a Special Revenue Fund that accounts for the operation, maintenance, repair, and capital improvements of Allen Terrace, an apartment community for independent senior citizens.

Health Care Fund - The Health Care Fund is a Special Revenue Fund established for the purpose of funding future retiree health care expenditures.

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Fiduciary funds account for the activities of the Allen Terrace Trust Fund, which provides rental subsidies for eligible Allen Terrace residents and funding for capital improvements for Allen Terrace. The Agency Fund accounts for assets held in an agent capacity for other entities.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade receivables are shown net of allowance for uncollectible amounts.

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation of the City totaled \$309.4 million, on which ad valorem taxes levied consisted of 13.3 mills for the City's operating purposes, 0.5627 mills for street repairs, 1.8074 mills for street improvements, and 0.1572 mills for public safety debt service. The ad valorem taxes levied raised \$3.8 million for operation, \$163,000 for street repairs, \$523,000 for street improvements, and \$46,000 for public safety debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

The delinquent real property taxes of the City are purchased by Wayne and Oakland counties. The counties sell tax notes, the proceeds of which are used to pay the City for these property taxes. Oakland County remitted its share of the purchased delinquent real property taxes in June 2004. Wayne County remitted its share of the purchased delinquent real property taxes in July 2004. Both the Wayne County and Oakland County shares of delinquent real property taxes have been recorded as revenue in the current year.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds of the Housing Commission Fund are set aside for construction. These amounts have been classified as restricted assets. Other restricted assets are due to donor restrictions or assets held by the county for sewer system improvements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|--|-------------|
| Roads, sidewalks, and bridges | 20-50 years |
| Wells, water, and sewer distribution systems | 30-90 years |
| Buildings and building improvements | 5-50 years |
| Equipment | 3-15 years |
| Vehicles | 2-20 years |
| Streetscape | 3-20 years |
| Parking system | 5-10 years |

Compensated Absences (Vacation, Compensatory, and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits and accumulate compensatory leave time. After 10 years of service, employees may receive payment of the accumulated sick leave balance at the rate of 50 percent for a retirement or 25 percent for other types of termination. A liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control adopted by the City is the activity level.

The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law. In addition, this budget presents the proposed budget as part of a five-year plan to improve the decision-making process.

The budget process begins with goals and objectives meetings in January with the City Council, city manager, and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each February, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the finance director in March. The city manager and finance director then analyze these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

A proposed balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in April and May, provide all interested citizens an open forum where they can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget is scheduled for adoption at the second regular City Council meeting in May. The operating millage rate is established as part of the budget adoption resolution at that meeting.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States, repurchase agreements, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions, which are rated as investment grade, and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City of Northville's deposits and investment policies are in accordance with statutory authority.

City of Northville, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total Primary Government | Component Unit |
|----------------------|----------------------------|-----------------------------|--------------------|-----------------------------|---------------------|
| Cash and investments | \$ 6,404,641 | \$ 1,441,433 | \$ 70,664 | \$ 7,916,738 | \$ 1,276,018 |
| Restricted assets | <u>137,692</u> | <u>5,000</u> | <u>-</u> | <u>142,692</u> | <u>-</u> |
| Total | <u>\$ 6,542,333</u> | <u>\$ 1,446,433</u> | <u>\$ 70,664</u> | <u>\$ 8,059,430</u> | <u>\$ 1,276,018</u> |

The breakdown between deposits and investments for the City and component unit is as follows:

| | Primary Government | Component Unit |
|---|-----------------------|---------------------|
| Checks issued in excess of available bank deposits | \$ (131,712) | \$ - |
| Bank investment pool funds | 8,190,201 | 1,276,018 |
| Petty cash or cash on hand | <u>941</u> | <u>-</u> |
| Total | <u>\$ 8,059,430</u> | <u>\$ 1,276,018</u> |

The bank balance of the City's deposits is \$63,839, all of which is covered by federal depository insurance.

At year end, the City's investments consisted solely of bank investment pool funds, which are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pool funds are regulated by the Michigan Banking Act. The fair value of the position is the same as the value of the pool shares.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------------|------------------|
| Other miscellaneous deferred revenue | \$ - | \$ 18,790 |
| Special assessments | 591,854 | - |
| Grant payments not available to support current expenditures | 49,120 | - |
| Grant payments received prior to performance | - | 15,913 |
| Total | <u>\$ 640,974</u> | <u>\$ 34,703</u> |

City of Northville, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the primary government was as follows:

| | Balance July 1, 2003 | Additions | Disposals and Adjustments | Balance June 30, 2004 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,226,946 | \$ - | \$ - | \$ 2,226,946 |
| Construction in progress | 285,336 | 425,322 | 171,431 | 539,227 |
| Subtotal | 2,512,282 | 425,322 | 171,431 | 2,766,173 |
| Capital assets being depreciated: | | | | |
| Roads, sidewalks, and bridges | 21,835,609 | 486,474 | - | 22,322,083 |
| Buildings and improvements | 8,135,599 | 1,224,083 | 31,353 | 9,328,329 |
| Parking system | 4,815,227 | - | - | 4,815,227 |
| Streetscape | 259,173 | 94,392 | 2,560 | 351,005 |
| Vehicles | 1,905,826 | 34,841 | 48,768 | 1,891,899 |
| Equipment | 1,410,328 | 19,136 | 26,958 | 1,402,506 |
| Subtotal | 38,361,762 | 1,858,926 | 109,639 | 40,111,049 |
| Accumulated depreciation: | | | | |
| Roads, sidewalks, and bridges | 13,860,272 | 336,878 | 940,874 | 13,256,276 |
| Buildings and improvements | 2,508,173 | 310,690 | 30,085 | 2,788,778 |
| Parking system | 893,611 | 99,658 | - | 993,269 |
| Streetscape | 71,145 | 13,960 | 2,240 | 82,865 |
| Vehicles | 1,094,313 | 145,920 | 48,768 | 1,191,465 |
| Equipment | 805,772 | 113,746 | 35,819 | 883,699 |
| Subtotal | 19,233,286 | 1,020,852 | 1,057,786 | 19,196,352 |
| Net capital assets being depreciated | 19,128,476 | 838,074 | (948,147) | 20,914,697 |
| Net capital assets | \$ 21,640,758 | \$ 1,263,396 | \$ (776,716) | \$ 23,680,870 |

City of Northville, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2003 | Additions | Disposals and Adjustments | Balance June 30, 2004 |
|---|-------------------------|---------------------|------------------------------|--------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated - CIP | \$ 27,931 | \$ 78,311 | \$ - | \$ 106,242 |
| Capital assets being depreciated: | | | | |
| Buildings | 21,535 | - | - | 21,535 |
| Water and sewer distribution system | <u>10,113,274</u> | <u>32,491</u> | <u>72,834</u> | <u>10,072,931</u> |
| Subtotal | 10,134,809 | 32,491 | 72,834 | 10,094,466 |
| Accumulated depreciation: | | | | |
| Buildings | 21,125 | 410 | - | 21,535 |
| Water and sewer distribution system | <u>3,250,311</u> | <u>235,478</u> | <u>7,243</u> | <u>3,478,546</u> |
| Subtotal | <u>3,271,436</u> | <u>235,888</u> | <u>7,243</u> | <u>3,500,081</u> |
| Net capital assets being depreciated | <u>6,863,373</u> | <u>(203,397)</u> | <u>65,591</u> | <u>6,594,385</u> |
| Net capital assets | <u>\$ 6,891,304</u> | <u>\$ (125,086)</u> | <u>\$ 65,591</u> | <u>\$ 6,700,627</u> |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|---|---------------------|
| Governmental activities: | |
| General government | \$ 201,814 |
| Public safety | 104,842 |
| Public works | 451,704 |
| Recreation and culture | 23,517 |
| Senior housing | 127,075 |
| Internal Service Fund depreciation is charged to the various functions based on their usage of the asset | <u>111,900</u> |
| Total governmental activities | <u>\$ 1,020,852</u> |
| Business-type activities - Water and sewer | <u>\$ 235,888</u> |

City of Northville, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects include the 2002 general obligation bond issue and the following listed projects. At year end, the City's commitments with contractors are as follows:

| | Spent to Date | Remaining Commitment |
|-----------------------------------|-------------------|-------------------------|
| Rural Hill Cemetery development | \$ 270,392 | \$ 117,345 |
| Allen Terrace improvements | 21,707 | 207,779 |
| Caldwell Road utilities extension | 214,612 | 17,801 |
| Mill Race Village parking lot | 8,049 | 45,121 |
| Springfield Drive improvements | 167,516 | 224,838 |
| Lexington Court reconstruction | - | 49,900 |
| Total | <u>\$ 682,276</u> | <u>\$ 662,784</u> |

Note 6 - Interfund Transfers

Interfund operating transfers for the current year are as follows:

| | | |
|---|--------------------------------|---------------------|
| Transfers from (out): | Transfers to (in): | |
| General Fund | Local Streets Fund (1) | \$ 118,129 |
| General Fund | Public Improvement Fund (1) | 218,228 |
| General Fund | Housing Commission | 23,617 |
| General Fund | Fire Equipment and Replacement | 79,450 |
| | Total | 439,424 |
| Housing Commission | Other nonmajor funds | 103,210 |
| Street Drainage and Sidewalk Improvement Fund | Major Streets Fund (2) | 77,893 |
| Street Drainage and Sidewalk Improvement Fund | Local Streets Fund (2) | 523,248 |
| | Total | 601,141 |
| | Total transfers | <u>\$ 1,143,775</u> |

- (1) The transfers from the General Fund to the Local Streets Fund and the Public Improvement Fund are to support the operations of those funds.
- (2) The transfers from the Street Drainage and Sidewalk Improvement Fund to the Major and Local Streets Fund is to support the construction of the capital asset additions discussed in Note 5.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity is summarized as follows:

| | Interest Rate | Principal Matures | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|---------------|----------------------|----------------------|------------------|-------------------|---------------------|------------------------|
| Governmental activities: | | | | | | | |
| General obligation bonds: | | | | | | | |
| Parking deck bonds | 5.25%-5.60% | 2008 | \$ 2,030,000 | \$ - | \$ 290,000 | \$ 1,740,000 | \$ 320,000 |
| Allen Terrace renovation bonds | 2.50%-4.88% | 2023 | 1,375,000 | - | 50,000 | 1,325,000 | 50,000 |
| Street improvement bonds | 6.00% | 2005 | 455,000 | - | 140,000 | 315,000 | 150,000 |
| Transportation fund bonds | 6.90%-7.00% | 2004 | 145,000 | - | 70,000 | 75,000 | 75,000 |
| Public safety bonds | 4.40%-5.00% | 2011 | 345,000 | - | 30,000 | 315,000 | 35,000 |
| Installment purchase agreements | 3.48%-6.50% | 2008 | 761,561 | 50,944 | 176,957 | 635,548 | 187,767 |
| Total governmental activities | | | <u>\$ 5,111,561</u> | <u>\$ 50,944</u> | <u>\$ 756,957</u> | <u>\$ 4,405,548</u> | <u>\$ 817,767</u> |
| Business-type activities - General obligation bonds: | | | | | | | |
| County contracts | 5.50%-6.00% | 2009 | \$ 517,314 | \$ - | \$ 73,224 | \$ 444,090 | \$ 79,326 |
| Special assessment bonds | 6.50% | 2003 | 60,000 | - | 60,000 | - | - |
| Limited tax bonds | 6.50% | 2003 | 15,000 | - | 15,000 | - | - |
| Less deferred amount on refunding | | | (43,525) | - | (7,254) | (36,271) | (7,254) |
| Total business-type activities | | | <u>\$ 548,789</u> | <u>\$ -</u> | <u>\$ 140,970</u> | <u>\$ 407,819</u> | <u>\$ 72,072</u> |

City of Northville, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|--------------|--------------|--------------------------|-----------|------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2005 | \$ 817,767 | \$ 197,120 | \$ 1,014,887 | \$ 72,072 | \$ 26,148 | \$ 98,220 |
| 2006 | 763,065 | 155,723 | 918,788 | 77,496 | 21,626 | 99,122 |
| 2007 | 626,064 | 120,148 | 746,212 | 82,920 | 16,711 | 99,631 |
| 2008 | 518,652 | 90,627 | 609,279 | 84,954 | 11,391 | 96,345 |
| 2009 | 485,000 | 64,580 | 549,580 | 90,377 | 5,858 | 96,235 |
| 2010-2014 | 435,000 | 211,013 | 646,013 | - | - | - |
| 2015-2019 | 385,000 | 131,855 | 516,855 | - | - | - |
| 2020-2024 | 375,000 | 36,669 | 411,669 | - | - | - |
| Total | \$ 4,405,548 | \$ 1,007,735 | \$ 5,413,283 | \$ 407,819 | \$ 81,734 | \$ 489,553 |

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

| | Governmental Activities | Business-type Activities |
|--|----------------------------|-----------------------------|
| Unspent bond proceeds and related interest | \$ 87,261 | \$ - |
| Deposits held at MMRMA | 50,431 | - |
| Grant revenue | - | 5,000 |
| Total restricted assets | \$ 137,692 | \$ 5,000 |

Note 9 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.15 percent for police

employees.

Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Costs - For the year ended June 30, 2004, the City's annual pension cost of \$384,541 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4.5 percent to 8.66 percent per year; and (c) no postretirement benefit increases. The actuarial value of assets is determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information is as follows:

| | Fiscal Year Ended June 30 | | |
|--|---------------------------------------|---------------|---------------|
| | 2002 | 2003 | 2004 |
| Annual pension costs (APC) | \$ 337,358 | \$ 352,377 | \$ 384,541 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |
| | Actuarial Valuation as of December 31 | | |
| | 2001 | 2002 | 2003 |
| Actuarial value of assets | \$ 9,285,110 | \$ 9,115,085 | \$ 9,561,341 |
| Actuarial Accrued Liability (AAL) (entry age) | \$ 12,345,089 | \$ 13,005,207 | \$ 13,717,544 |
| Unfunded AAL (UAAL) | \$ 3,059,979 | \$ 3,890,122 | \$ 4,156,203 |
| Funded ratio | 75% | 70% | 70% |
| Covered payroll | \$ 2,053,179 | \$ 2,249,682 | \$ 2,229,147 |
| UAAL as a percentage of covered payroll | 149% | 173% | 186% |

Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Defined Contribution Pension Plan

The City provides pension benefits through a defined contribution plan to its regular, non-union employees hired after April 1, 1997, AFSCME employees hired after February 3, 1997, and MAPE employees hired after August 17, 1998. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council action, the City contributes 10 percent of employees' gross earnings for each full-time employee and 5 percent for each eligible part-time employee. There is no employee contribution. The City contribution plus interest allocated to the employee's account is fully vested after seven years of service.

The City's total payroll during the current year was \$4,048,786. The current year contribution was calculated based on covered payroll of \$746,116, resulting in an employer contribution of \$71,222.

Note 10 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 34 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2004, the City made payments for postemployment health benefit premiums of \$319,888. The government obtains health care coverage through private insurers.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Jointly Governed Organizations

The City participates in the Northville Parks and Recreation Commission (the "Recreation Commission") as a joint venture with the Charter Township of Northville. The City appoints four members to the governing board of the Recreation Commission. Approval of the annual budget is required by the City and the Charter Township of Northville. The Recreation Commission has been subsidized to the extent that expenditures exceed operating revenue. At June 30, 2004, the investment in the Recreation Commission was \$432,378. During the current year, the City contributed approximately \$182,000 for the operations of the Recreation Commission. During the current year, the City loaned the Recreation Commission's Capital Project Fund \$900,000 to cure a cash deficit due to loan proceeds spent but not received by June 30, 2004. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Recreation Commission can be obtained from the City offices at 215 W. Main Street, Northville, Michigan 48167.

The City participates in the Northville Youth Assistance Commission (the "Commission") as a joint venture with the Charter Township of Northville and the Northville Public Schools. The City appoints three members to the governing board of the Commission. Approval of the annual budget is required by the City and the Charter Township of Northville. At June 30, 2004, the investment in the Commission was \$29,488. During the current year, the City contributed approximately \$18,000 for the operations of the Commission. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Commission can be obtained from the Charter Township of Northville at 41600 West Six Mile Road, Northville, Michigan 48167.

The City is a member of the 35th District Court System, which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's board, which then approves the annual budget, and one member to the related Building Authority board. At June 30, 2004, the investment in the Court System was \$187,769.

Note 12 - Fund Balance Designations

The City has designated fund balance in the Special Revenue Funds as follows:

Designated fund balance - Designated for:

| | |
|--|----------------------------|
| Ford Field | \$ 6,000 |
| Cemetery expansion | 120,916 |
| Senior center project | 149,985 |
| Install new sidewalks | 4,595 |
| Sewer improvements | 50,000 |
| Mill Pond restoration | 30,000 |
| Contingency/Grant match | 65,400 |
| Post Office expansion | 14,420 |
| Firing range - Department of Corrections | 10,000 |
| Historic District demolition standards | 766 |
| Pedestrian walkway | 52,000 |
| Reverse 911 system reserve | 30,000 |
| E. Main lighting and sidewalk improvements | 3,646 |
| Projects under consideration | 324,240 |
| Special projects | 253,312 |
| Arts Commission | 10,023 |
| Beautification Commission | 14,441 |
| Subsequent year budgeted expenditures in excess of budgeted revenue | <u>56,433</u> |
| Total designated fund balance | <u><u>\$ 1,196,177</u></u> |

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity is as follows:

| | | |
|--------------------------------------|----|------------------|
| Cumulative shortfall - July 1, 2003 | \$ | (81,945) |
| Building permit revenue | \$ | 136,314 |
| Related expenditures: | | |
| Direct costs | | 94,906 |
| Estimated indirect costs | | <u>90,206</u> |
| Total construction code expenditures | | <u>185,112</u> |
| Shortfall - Current year | | <u>(48,798)</u> |
| Cumulative shortfall - June 30, 2004 | \$ | <u>(130,743)</u> |

Note 14 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. The City has purchased commercial insurance for all medical benefits beginning November 1, 1998. Commercial insurance has been purchased for firefighter death and disability claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. A portion of the excess insurance coverage is underwritten by the Michigan Municipal Risk Management Authority itself.

Note 14 - Risk Management (Continued)

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not been reported. During the year ended June 30, 2004, there were no uninsured claims paid by the City.

Required Supplemental Information

City of Northville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance from Amended Budget |
|---|--------------------|-------------------|--------------|------------------------------------|
| Fund Balance - Beginning of year | \$ 1,840,985 | \$ 1,840,985 | \$ 1,840,985 | \$ - |
| Resources (Inflows) | | | | |
| Property taxes | 4,130,359 | 4,127,362 | 4,133,149 | 5,787 |
| Licenses and permits | 274,050 | 270,140 | 284,700 | 14,560 |
| State-shared and grant revenue | 670,753 | 637,925 | 628,717 | (9,208) |
| Sales and services | 86,285 | 104,593 | 112,775 | 8,182 |
| Charges for services | 201,687 | 201,687 | 201,687 | - |
| Fines and forfeitures | 111,100 | 107,600 | 96,827 | (10,773) |
| Racetrack breakage | 175,863 | 182,476 | 176,834 | (5,642) |
| Other | 128,147 | 83,332 | 79,866 | (3,466) |
| Proceeds from installment debt | - | 50,944 | 50,944 | - |
| Transfer from other funds and component units | 68,978 | 64,278 | 59,978 | (4,300) |
| Amounts available for appropriation | 5,847,222 | 5,830,337 | 5,825,477 | (4,860) |
| Charges to Appropriations (Outflows) | | | | |
| General government: | | | | |
| City Council | 20,555 | 20,268 | 14,850 | 5,418 |
| City Manager | 212,875 | 217,808 | 216,411 | 1,397 |
| Clerk - Elections | 11,772 | 9,293 | 8,135 | 1,158 |
| City Clerk | 182,985 | 181,449 | 175,869 | 5,580 |
| Finance and accounting | 262,785 | 267,375 | 259,839 | 7,536 |
| Taxation | 179,801 | 191,301 | 187,225 | 4,076 |
| City attorney | 105,660 | 87,285 | 84,934 | 2,351 |
| Planning, zoning, and inspection | 213,259 | 226,527 | 223,547 | 2,980 |
| Public safety: | | | | |
| Police track services | 147,895 | 141,240 | 141,425 | (185) |
| Police department | 1,994,898 | 2,023,789 | 1,963,985 | 59,804 |
| Fire department | 278,319 | 309,035 | 291,912 | 17,123 |
| Fire track services | 11,980 | 12,190 | 19,333 | (7,143) |

City of Northville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance from Amended Budget |
|--|--------------------------------|--------------------------------|--------------------------------|------------------------------------|
| Charges to Appropriations (Outflows) (Continued) | | | | |
| Public works: | | | | |
| Civic decorations | \$ 34,525 | \$ 34,735 | \$ 35,118 | \$ (383) |
| Fall leaf pickup | 40,310 | 45,495 | 45,961 | (466) |
| Street lighting and miscellaneous public works | 161,085 | 163,390 | 170,762 | (7,372) |
| Parking system | 151,415 | 153,183 | 157,543 | (4,360) |
| Public works administration | 189,385 | 191,926 | 186,233 | 5,693 |
| Buildings and grounds: | | | | |
| Cemetery maintenance | 114,020 | 115,415 | 122,450 | (7,035) |
| City hall buildings and grounds | 156,660 | 157,544 | 159,840 | (2,296) |
| Mill Race Village maintenance | 24,220 | 22,069 | 20,816 | 1,253 |
| City property - Other | 18,165 | 19,865 | 21,055 | (1,190) |
| Parks and playgrounds | 12,850 | 62,594 | 60,870 | 1,724 |
| Tree maintenance | 23,900 | 24,316 | 23,955 | 361 |
| Debt retirement | 266,143 | 229,878 | 232,625 | (2,747) |
| Shared services | 194,318 | 200,587 | 199,444 | 1,143 |
| Other expenditures: | | | | |
| Technology costs | 195,020 | 186,056 | 183,558 | 2,498 |
| Insurance, bonds, and employee reserve | 44,400 | 57,175 | 107,175 | (50,000) |
| Central supply | 30,340 | 34,916 | 31,065 | 3,851 |
| Unallocated reserve contingency | 5,000 | - | - | - |
| Transfers to other funds | 439,476 | 429,605 | 439,424 | (9,819) |
| Total charges to appropriations | 5,724,016 | 5,816,309 | 5,785,359 | 30,950 |
| Fund Balance - End of year | <u>\$ 1,964,191</u> | <u>\$ 1,855,013</u> | <u>\$ 1,881,103</u> | <u>\$ 26,090</u> |

City of Northville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance from Amended Budget |
|---|--------------------|-------------------|-------------------|------------------------------------|
| Major Streets | | | | |
| Fund Balance - Beginning of year | \$ 103,068 | \$ 103,068 | \$ 103,068 | \$ - |
| Resources (Inflows) | | | | |
| State-shared and grant revenue | 249,718 | 259,758 | 270,965 | 11,207 |
| Other revenue | 740 | 450 | 442 | (8) |
| Transfers in from other funds | 75,000 | 80,108 | 77,893 | (2,215) |
| Amounts available for appropriations | 325,458 | 340,316 | 349,300 | 8,984 |
| Charges to Appropriations (Outflows) | | | | |
| Debt retirement | 37,999 | 37,999 | 38,198 | (199) |
| Other expenditures | 30,020 | 32,416 | 32,280 | 136 |
| Street maintenance and repairs | 117,475 | 117,990 | 133,531 | (15,541) |
| Construction - Streets | 55,000 | 80,108 | 78,131 | 1,977 |
| Traffic services | 38,685 | 22,650 | 17,783 | 4,867 |
| Winter maintenance | 46,060 | 40,141 | 34,666 | 5,475 |
| Total charges to appropriations | 325,239 | 331,304 | 334,589 | (3,285) |
| Fund Balance - End of year | \$ 103,287 | \$ 112,080 | \$ 117,779 | \$ 5,699 |
| Local Streets | | | | |
| Fund Balance - Beginning of year | \$ 95,036 | \$ 95,036 | \$ 95,036 | \$ - |
| Resources (Inflows) | | | | |
| State-shared and grant revenue | 106,034 | 120,785 | 125,590 | 4,805 |
| Other revenue | 930 | 3,800 | 3,793 | (7) |
| Transfers in from other funds | 596,000 | 650,829 | 641,377 | (9,452) |
| Amounts available for appropriations | 702,964 | 775,414 | 770,760 | (4,654) |
| Charges to Appropriations (Outflows) | | | | |
| Debt retirement | 40,483 | 40,483 | 40,284 | 199 |
| Other expenditures | 30,520 | 32,361 | 32,280 | 81 |
| Street maintenance and repairs | 105,535 | 121,631 | 136,314 | (14,683) |
| Construction - Streets | 470,000 | 587,700 | 523,248 | 64,452 |
| Traffic services | 15,535 | 10,535 | 9,431 | 1,104 |
| Winter maintenance | 40,795 | 29,175 | 29,057 | 118 |
| Total charges to appropriations | 702,868 | 821,885 | 770,614 | 51,271 |
| Fund Balance - End of year | \$ 95,132 | \$ 48,565 | \$ 95,182 | \$ 46,617 |

City of Northville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance from Amended Budget |
|--|----------------------------|----------------------------|----------------------------|------------------------------------|
| Parking Fund | | | | |
| Fund Balance - Beginning of year | \$ 194,866 | \$ 194,866 | \$ 194,866 | \$ - |
| Resources (Inflows) - Other revenue | | | | |
| Special assessments | 75,957 | 95,578 | 100,698 | 5,120 |
| Other revenue | <u>3,420</u> | <u>4,765</u> | <u>4,319</u> | <u>(446)</u> |
| Amounts available for appropriations | 79,377 | 100,343 | 105,017 | 4,674 |
| Charges to Appropriations (Outflows) - Other expenditures | <u>9,028</u> | <u>8,860</u> | <u>8,316</u> | <u>544</u> |
| Fund Balance - End of year | <u>\$ 265,215</u> | <u>\$ 286,349</u> | <u>\$ 291,567</u> | <u>\$ 4,130</u> |
| Public Improvement Fund | | | | |
| Fund Balance - Beginning of year | \$ 1,644,352 | \$ 1,644,352 | \$ 1,644,352 | \$ - |
| Resources (Inflows) | | | | |
| Federal sources | 110,100 | 11,108 | 9,747 | (1,361) |
| Special assessment | 13,648 | 23,238 | 31,108 | 7,870 |
| Racetrack breakage | - | 272,624 | 353,585 | 80,961 |
| Other revenue | 43,603 | 67,833 | 60,937 | (6,896) |
| Transfers in from other funds and component unit | <u>194,509</u> | <u>230,509</u> | <u>240,261</u> | <u>9,752</u> |
| Amounts available for appropriations | 361,860 | 605,312 | 695,638 | 90,326 |
| Charges to Appropriations (Outflows) | | | | |
| Debt retirement | 174,209 | 174,209 | 174,028 | 181 |
| Other expenditures | 462,906 | 1,019,507 | 755,703 | 263,804 |
| Transfers to other funds | <u>15,000</u> | <u>4,300</u> | <u>-</u> | <u>4,300</u> |
| Total charges to appropriations | <u>652,115</u> | <u>1,198,016</u> | <u>929,731</u> | <u>268,285</u> |
| Fund Balance - End of year | <u>\$ 1,354,097</u> | <u>\$ 1,051,648</u> | <u>\$ 1,410,259</u> | <u>\$ 358,611</u> |

City of Northville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance from Amended Budget |
|---|------------------------|---------------------|---------------------|------------------------------------|
| | Housing Commission | | | |
| Fund Balance - Beginning of year | \$ 1,348,859 | \$ 1,348,859 | \$ 1,348,859 | \$ - |
| Resources (Inflows) | | | | |
| Michigan Housing Authority subsidies | 86,018 | 86,018 | 80,049 | (5,969) |
| Rental income | 589,873 | 584,873 | 591,440 | 6,567 |
| Federal sources | 8,100 | 5,100 | 6,419 | 1,319 |
| Sales and services | 3,980 | 3,980 | 3,977 | (3) |
| Other revenue | 10,190 | 14,957 | 16,848 | 1,891 |
| Transfers in from other funds and component unit | 23,617 | 23,617 | 23,617 | - |
| Amounts available for appropriations | 721,778 | 718,545 | 722,350 | 3,805 |
| Charges to Appropriations (Outflows) | | | | |
| Administration | 208,492 | 200,180 | 194,038 | 6,142 |
| Building and grounds | 360,907 | 330,907 | 302,193 | 28,714 |
| Debt retirement | 18,119 | 18,119 | 18,135 | (16) |
| Other expenditures | 1,123,601 | 1,317,986 | 1,124,005 | 193,981 |
| Transfers out to other funds | 103,485 | 103,485 | 103,210 | 275 |
| Total charges to appropriations | 1,814,604 | 1,970,677 | 1,741,581 | 229,096 |
| Fund Balance - End of year | \$ 256,033 | \$ 96,727 | \$ 329,628 | \$ 232,901 |
| | Health Care Trust Fund | | | |
| Fund Balance - Beginning of year | \$ 1,044,270 | \$ 1,044,270 | \$ 1,044,270 | \$ - |
| Resources (Inflows) | | | | |
| Contributions from local units | - | - | 208,348 | 208,348 |
| Other revenue | - | - | 8,050 | 8,050 |
| Amounts available for appropriations | - | - | 216,398 | 216,398 |
| Fund Balance - End of year | \$ 1,044,270 | \$ 1,044,270 | \$ 1,260,668 | \$ 216,398 |

Other Supplemental Information

City of Northville, Michigan

| | Nonmajor Special Revenue Funds | | | | Nonmajor Debt Service Funds | |
|--------------------------------------|--|-------------------|-------------------------------------|--------------------------|-----------------------------|---------------------------|
| | Street Drainage and Sidewalk Improvement | Cemetery | Employees' Accumulated Compensation | Insurance Retention Fund | Parking Deck | 2002 Debt Retirement Fund |
| Assets | | | | | | |
| Cash and investments | \$ 138,064 | \$ 470,067 | \$ 289,082 | \$ - | \$ 489,673 | \$ - |
| Restricted asset | - | - | - | 50,431 | - | 37 |
| Receivables - Net: | | | | | | |
| Other government units | 6,133 | - | - | - | 1,345 | - |
| Assessments | - | - | - | - | 139,414 | - |
| Other | - | 5,353 | - | - | - | - |
| Other assets | - | - | - | - | - | 58,089 |
| Total assets | <u>\$ 144,197</u> | <u>\$ 475,420</u> | <u>\$ 289,082</u> | <u>\$ 50,431</u> | <u>\$ 630,432</u> | <u>\$ 58,126</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 30 | \$ 53 | \$ 28 | \$ - | \$ 53 | \$ - |
| Deferred revenue | - | - | - | - | 111,529 | - |
| Total liabilities | 30 | 53 | 28 | - | 111,582 | - |
| Fund Balances | | | | | | |
| Reserved for cemetery trust | - | 475,367 | - | - | - | - |
| Reserved for capital projects | - | - | - | - | - | 37 |
| Designated | 56,433 | - | - | - | - | - |
| Unreserved | 87,734 | - | 289,054 | 50,431 | 518,850 | 58,089 |
| Total fund balances | <u>144,167</u> | <u>475,367</u> | <u>289,054</u> | <u>50,431</u> | <u>518,850</u> | <u>58,126</u> |
| Total liabilities and fund balances | <u>\$ 144,197</u> | <u>\$ 475,420</u> | <u>\$ 289,082</u> | <u>\$ 50,431</u> | <u>\$ 630,432</u> | <u>\$ 58,126</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

| Nonmajor Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|--|
| Fire Equipment and Replacement | |
| \$ 74,975 | \$ 1,461,861 |
| 86,172 | 136,640 |
| - | 7,478 |
| - | 139,414 |
| 1,000 | 6,353 |
| - | 58,089 |
| <u>\$ 162,147</u> | <u>\$ 1,809,835</u> |

| | |
|-------------------|---------------------|
| \$ - | \$ 164 |
| - | 111,529 |
| - | 111,693 |
| - | 475,367 |
| 86,172 | 86,209 |
| - | 56,433 |
| 75,975 | 1,080,133 |
| <u>162,147</u> | <u>1,698,142</u> |
| <u>\$ 162,147</u> | <u>\$ 1,809,835</u> |

City of Northville, Michigan

| | Nonmajor Special Revenue Funds | | | | Nonmajor Debt Service Funds | |
|--|---|-------------------|-------------------------------------|--------------------------|-----------------------------|---------------------------|
| | Street Drainage and Sidewalk Improvements | Cemetery | Employees' Accumulated Compensation | Insurance Retention Fund | Parking Deck | 2002 Debt Retirement Fund |
| Revenue | | | | | | |
| Property taxes | \$ 523,743 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Special assessments | - | - | - | - | 38,007 | - |
| Local contributions | - | - | - | - | 339,459 | - |
| Sales | - | 30,376 | - | - | - | - |
| Contributions from other funds | - | - | 49,600 | 52,337 | - | - |
| Other | 2,152 | 3,127 | 1,649 | 3,892 | 3,055 | 32 |
| Total revenue | 525,895 | 33,503 | 51,249 | 56,229 | 380,521 | 32 |
| Expenditures | | | | | | |
| Insurance | - | - | - | 5,798 | - | - |
| Current capital outlay | - | - | - | - | - | - |
| Debt service | - | - | - | - | 393,508 | 68,582 |
| Total expenditures | - | - | - | 5,798 | 393,508 | 68,582 |
| Excess of Revenue Over (Under) Expenditures | 525,895 | 33,503 | 51,249 | 50,431 | (12,987) | (68,550) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 103,210 |
| Transfers out | (601,141) | - | - | - | - | - |
| Total other financing sources (uses) | (601,141) | - | - | - | - | 103,210 |
| Net Change in Fund Balances | (75,246) | 33,503 | 51,249 | 50,431 | (12,987) | 34,660 |
| Fund Balances - Beginning of year | 219,413 | 441,864 | 237,805 | - | 531,837 | 23,466 |
| Fund Balances - End of year | <u>\$ 144,167</u> | <u>\$ 475,367</u> | <u>\$ 289,054</u> | <u>\$ 50,431</u> | <u>\$ 518,850</u> | <u>\$ 58,126</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

| Nonmajor Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|--|
| Fire Equipment and Replacement | |
| \$ - | \$ 523,743 |
| - | 38,007 |
| 3,000 | 342,459 |
| - | 30,376 |
| - | 101,937 |
| <u>25,377</u> | <u>39,284</u> |
| 28,377 | 1,075,806 |
| - | 5,798 |
| 27,827 | 27,827 |
| - | <u>462,090</u> |
| <u>27,827</u> | <u>495,715</u> |
| 550 | 580,091 |
| 79,450 | 182,660 |
| - | <u>(601,141)</u> |
| <u>79,450</u> | <u>(418,481)</u> |
| 80,000 | 161,610 |
| <u>82,147</u> | <u>1,536,532</u> |
| <u><u>\$ 162,147</u></u> | <u><u>\$ 1,698,142</u></u> |

City of Northville, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities - Agency Funds Fiduciary Funds June 30, 2004

| | Agency Funds | | |
|---------------------------------|-------------------------|-------------------------|-------------------------|
| | Payroll | Agency | Totals |
| Assets | | | |
| Cash and investments | \$ (60,604) | \$ 26,577 | \$ (34,027) |
| Accounts receivable | 167 | - | 167 |
| Other assets | <u>110,205</u> | <u>-</u> | <u>110,205</u> |
| Total assets | <u>\$ 49,768</u> | <u>\$ 26,577</u> | <u>\$ 76,345</u> |
| Liabilities | | | |
| Accounts payable | \$ 44,640 | \$ - | \$ 44,640 |
| Accrued and other liabilities | 5,128 | 1,662 | 6,790 |
| Due to other governmental units | <u>-</u> | <u>24,915</u> | <u>24,915</u> |
| Total liabilities | <u>\$ 49,768</u> | <u>\$ 26,577</u> | <u>\$ 76,345</u> |

October 8, 2004

Honorable Mayor and Members
of the City Council
City of Northville
215 West Main Street
Northville, MI 48167

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Northville, Michigan for the year ended June 30, 2004. Again, the entire finance department put forth an outstanding effort in preparing for the audit. In addition to the audit report, we offer the following comments for your consideration:

Current State Financial Picture

The City has and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue accounts for approximately 10 percent of the City's total General Fund revenue. Almost all municipalities are receiving reductions in their state-shared revenue due to the State's budget problems. For the third state fiscal year in a row, revenue-sharing payments were less than originally projected. The following table sets forth a history of your revenue-sharing payments, based upon the State's fiscal year:

| Year Ended September 30 | Constitutional | Statutory | Total |
|----------------------------|----------------|-----------|-----------|
| 2001 | \$419,138 | \$332,644 | \$751,782 |
| 2002 | 423,408 | 296,973 | 720,381 |
| 2003 | 403,578 | 249,292 | 679,870 |
| 2004 | 425,900 | 185,135 | 611,035 |
| 2005 - Estimated | 444,068 | 166,967 | 611,035 |

Currently, the budget proposed for the State's 2004/2005 fiscal year includes another reduction for the City in state-shared revenue of 0.73 percent from fiscal year 2003/2004 levels. This version of the budget was ultimately adopted by the Michigan legislature. Again, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

Over the past several years, the City has made great progress in building a healthy fund balance. Undesignated fund balance for the General Fund is \$1,880,000 for the year ended June 30, 2004, an increase of approximately 2 percent from the previous year. As we have all learned, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. The City is well positioned in the short-run to weather this downturn because of the fund balance that exists. We encourage management to make every effort to protect and grow the level of fund balance. This will ensure the City's health for years to come.

Property Taxes

As you will recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

| | | | |
|------|------|------|------|
| 2004 | 2.3% | 1999 | 1.6% |
| 2003 | 1.5% | 1998 | 2.7% |
| 2002 | 3.2% | 1997 | 2.8% |
| 2001 | 3.2% | 1996 | 2.8% |
| 2000 | 1.9% | 1995 | 2.6% |

The 2003 inflation factor, which was the lowest level of inflation in the last 10 years, was used for property taxes levied in the City's year ended June 30, 2004. As indicated above, growth in existing property is significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. The charter operating mills are 20.0000 versus the Headlee limited mills of 14.5056. The City is currently not levying at capacity, but the millage capacity (the difference between actual levy and Headlee Maximum) of the City will continue to shrink as the rates get "rolled back" annually. The City's millage capacity for the June 30, 2004 fiscal year was 1.2056, a decrease of 0.1083 mills from the previous year.

Public Accounting Update

During the current audit, a new standard related to the detection of fraud in an organization was implemented. The new standard adds greater guidance related to the steps an auditor must perform in assessing the risk of fraud. It also specifies that nonaccounting personnel must be included in an auditor's inquiries related to fraud.

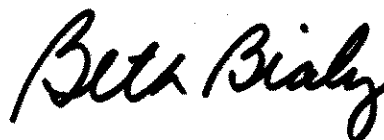
Postemployment Benefits

There are two new accounting pronouncements that were recently issued by the Governmental Accounting Standards Board. Both standards relate to accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. It is our understanding that the City recently had actuarial valuation performed for this liability. Starting in 2006, the City will be required to periodically measure its retiree health care liability through actuarial valuations. These valuations will also compute an "annual required contribution." The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has \$1,300,000 set aside in a fund to help offset this liability.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

Plante & Moran, PLLC



Beth A. Bialy



Christopher S. Jones